

“Rob Simmons Supports Tax Relief Extension Act”

GENERAL TAX TIDBITS

- According to non-partisan Tax Foundation, Connecticut’s “Tax Freedom Day” is May 1 – the latest of any state. The average Tax Freedom Day is April 17.
- Connecticut’s federal tax burden is \$11,819 – the highest of any state in the nation.
- Added together, Connecticut’s state and federal tax burden consumes 33.5% of all earned income. That is the highest in the country.
- Connecticut’s state and local tax burden per capita in 2005 was \$5400 – the worst in the country.
- Connecticut’s return on the federal dollar is only .65 cents – that’s 48th out of 50 states (NJ and NH are worse).

ABOUT THE “TAX RELIEF EXTENSION ACT”

H.R. 4297, the Tax Relief Extension Reconciliation Act of 2005 passed the House on Dec. 8, 2005. The Senate passed its version In Nov. 2005. The conference negotiations are on-going.

WHAT’S IN THE TAX RELIEF EXTENSION ACT?

1. The measure provides a two-year extension of the reduced tax rates on capital gains and dividends that were enacted in 2003. The provisions are currently scheduled to expire in 2008.
2. The bill also provides the following two-year extensions:
 - Small Business Expensing – Extends through 2009 the increased amount of purchases that small businesses may expense, as well as the increased level at which the deduction begins to phase-out.
 - "Saver's Credit" – Extends through 2008 the "Saver's Credit" for lower-income workers who contribute to certain retirement and pension plans.
 - Exemption for Active Financing Income – Extends through 2008 a provision that allows corporations to exclude offshore "active financing" income from taxation; and
 - Brownfields Expensing – The measure extends through 2007 the deduction for cleaning up contaminated brownfields sites. It also makes sites contaminated by petroleum eligible.
3. The measure provides one-year extensions for several provisions scheduled to expire at the end of the year:
 - Research and Development (R&D) tax credit – extends it for one year.
 - Work Opportunity Tax Credit – this tax credit is for employers that hire targeted workers, and allows older food stamp recipients to be eligible.
4. It also provides one-year extensions of the following:
 - Provisions that allow taxpayers to claim certain tax credits against the alternative minimum tax;
 - The deduction for higher-education expenses;
 - The deduction of up to \$250 of out-of-pocket classroom expenses for teachers; and
 - 15-year depreciation rates for restaurant equipment and improvements to leased property.

PREVENT TAX HIKE ON DIVIDEND INCOME

- The Tax Relief Extension Act prevents tax hikes on income from dividends.
- Contrary to the claims that eliminating the double tax on dividend income will benefit only a handful of Americans, the latest IRS data shows that Connecticut would receive the third-most tax relief (\$886).
- 37.3 percent of all federal returns from Connecticut contained dividend income.

EXAMPLES OF DIVIDEND INCOME:

1. Consider a retired married couple in Enfield living on \$50,000 a year, including \$15,000 from dividends on stocks accumulated over a lifetime of hard work. If Congress does not act, they will face an annual tax hike of \$2,250, more than doubling what they pay now.
2. For a widow in Norwich living on a fixed income of \$35,000 a year, including \$8,000 in dividend income on investments made years ago, she will face a tax increase of \$1,200, or 48%, if Congress fails to act.

PREVENT TAX HIKE ON INCOME FROM INVESTMENTS

- The Tax Relief Extension Act prevents a tax hikes on income from the sale of investments.

FOR EXAMPLE:

1. Consider a retired married couple in Enfield living on \$50,000 a year. The couple invested \$10,000 in a mutual fund for their retirement two decades ago, and its value has increased to \$22,000 today after a modest 4 percent annual return. If Congress does not act, \$1,200 in capital gains taxes will be owed on those savings when the couple sold the mutual fund. If Congress acts and extends current law, they will be able to use all of the earnings from that investment to pay for their everyday living expenses.

PREVENTS TAX INCREASES ON MANUFACTURERS AND SMALL BUSINESSES

- Connecticut is home to 5,384 manufacturing firms and 214,000 manufacturing workers, according to the latest U.S. Census figures.
- The 300,000 small businesses in Connecticut employ nearly 800,000 people, or over half of the state's workforce, according to the U.S. Small Business Administration.

Connecticut manufacturers and small businesses benefit from critical tax incentives to invest in themselves, grow and create jobs in Connecticut. Yet two of these incentives will end without Congressional action.

- **R&D Tax Credit** – If Congress does not act, the research and development (R&D) tax credit will not be continued and manufacturers will pay higher taxes. The R&D tax credit helps Connecticut's manufacturers and engineering firms invest in the cutting edge research necessary for new product development. The tax credit has a direct impact on manufacturing jobs, as more than 75 percent of the credit's value goes directly to paying wages, and it is key to keeping American manufacturers of all sizes competitive. 16,000 firms and their workers benefit from the R&D Tax Credit, and 4,500 of these firms have assets less than \$1 million.
- **Small Business Expensing** – If Congress does not act, small businesses will lose an important job-creating incentive. Current law allows small businesses to write off the cost of \$100,000 worth of new equipment purchases, be it the cost of a delivery truck, new computer equipment, or machinery upgrades. These savings can then be reinvested in the small business and used to grow and create jobs. This law will expire if Congress does not act, and operating costs and taxes on small businesses will increase.

PROTECT IMPORTANT ASSISTANCE FOR LOW-INCOME WORKING FAMILIES

In order to help low-income Americans find employment and save for retirement, the bill includes key extensions of the “Saver’s Credit” and the Work Opportunity Tax Credit.

- Extends the “Saver’s Credit” for five million low-income Americans. Through the Saver’s Credit, the federal government provides a dollar-to-dollar match for low-income taxpayers who put money aside in a retirement savings account. Nearly half of those using the Saver’s credit earn between \$10,000 and \$30,000 a year. If Congress does not act, this credit will expire and low-income Americans will pay more in taxes and lose incentives to save.
- Extends the Work Opportunity Tax Credit for employers who hire Americans who leave welfare and enter the workforce. Over the past year, the Work Opportunity Tax Credit has helped approximately 6,000 former welfare recipients gain new jobs.

PROTECT HIGHER EDUCATION EXPENSING

- More than 15,000 eastern Connecticut residents claim the higher education deduction. One-third of these residents earn less than \$30,000 per year.